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STANCOR LIMITED

annual report 1965



Douglas R. Annett,
Chairman of the Board,
Stancor Limited



J. William Stack, Jr.,
President
Stancor Limited

OFFICERS

DOUGLAS RUDYARD ANNETT	<i>Chairman of the Board</i>	80 Glengrove Avenue West, Toronto, Ontario
JOSEPH WILLIAM STACK, JR.	<i>President</i>	41 Stratheden Road, Toronto, Ontario
FREDERICK HENRY PEPPLER	<i>Vice-President</i>	11 Tally Lane, Willowdale, Ontario
ROBERT LEGAT TREVORROW BAILLIE	<i>Vice-President and Treasurer</i>	88 Glencairn Avenue, Toronto, Ontario
ALLAN LESLIE BEATTIE, Q.C.	<i>Secretary</i>	89 Douglas Drive, Toronto, Ontario

DIRECTORS

DOUGLAS RUDYARD ANNETT	<i>Investment Dealer</i>	80 Glengrove Avenue West, Toronto, Ontario
ALLAN LESLIE BEATTIE, Q.C.	<i>Solicitor</i>	89 Douglas Drive, Toronto, Ontario
ROBERT DUCAS	<i>Executive</i>	Pawling, New York, New York
ALEC ROY JACOBS	<i>Executive</i>	37 Glenallen Road, Toronto, Ontario
RICHEY BRYCE LOVE	<i>Solicitor</i>	714 Earl Grey Crescent, Calgary, Alberta
FREDERICK HENRY PEPPLER	<i>Executive</i>	11 Tally Lane, Willowdale, Ontario
JOSEPH WILLIAM STACK, JR.	<i>Executive</i>	41 Stratheden Road, Toronto, Ontario

President's Letter

Stancor Limited was incorporated under the laws of Ontario on March 8, 1965. Intensive investigation and research had convinced the small group of founding shareholders that the introduction of modern management techniques and marketing technology, backed by sound financing, was long overdue in the Canadian furniture industry. Therefore, a planned pattern of growth through acquisition, as well as expansion of existing companies, was established.

During the first year of operation, this plan was successfully implemented.

Three basic considerations were applied to each prospective company before a decision was reached as to the desirability of acquiring it for Stancor.

Most important was the quality of management it offered. This included the growth potential, the endorsement of the Stancor concept by its management group, and the adaptability offered by the individuals concerned. It was apparent that we would need to enlist people who recognized the need for, and were willing to accept, the necessity for change.

The second consideration was the kind and quality of product manufactured. It was important that our initial growth be accomplished by having non-competitive lines. Because we did not feel the lowest priced merchandise was compatible with the Stancor dedication to quality of product, we limited our acquisitions to the middle and higher priced lines of each type of furniture. At the same time, we are determined to cover the entire range of furniture, including bedroom, dining room, upholstered, office and

commercial, metal and wrought iron and novelties, including tables and chairs.

The third consideration involved the physical facilities of each prospective company. The obvious limitations presented by obsolete factories and equipment retards effective competition with the few United States furniture producers who are equipped with modern factories.

By obtaining modern facilities, we would be able to compete effectively in both the Canadian and the United States markets.

These three fundamentals were applied in planning for our immediate goal of approximately \$15 to \$20 million in sales volume. We believe this level is necessary in order to attract qualified staff, as well as the marketing and merchandising support which are absolutely essential to launch an effective corporate entity into the North American furniture manufacturing industry.

The first step in the Stancor growth program was accomplished May 21, 1965 with the acquisition of the Peppler group of furniture manufacturing companies. This gave Stancor an operating factory in Elora, Ontario, producing upholstered furniture at an annual sales volume of \$700,000. It also included a wooden household furniture manufacturing plant in Hanover, Ontario, producing an annual sales volume of \$1,600,000.

The upholstered line is sold under the "Peppler-Selig" brand name and represents very high quality furniture of a contemporary design.



CASE GOODS AWARD WINNER—The 'Grande Manoire' Bedroom Grouping, designed by Stancor designer Joseph Adkinson and manufactured by the Peppler Division of Stancor Limited, won the Design Award in the Traditional Wooden Furniture Category at the Canadian Furniture Mart in Toronto.

ment is proud that Baughman's belief in, and endorsement of, the Stancor concept has persuaded him to give up several of his accounts in order to devote sufficient time to provide Stancor with an exclusive Canadian contemporary design.

The management of Stancor is extremely optimistic about the profit potential of the Company with the commencement of production from the new factory in Hanover March 9, 1966. The dedication of the new plant, incidentally, occurred one year and a day from the time Stancor was incorporated. Production scheduling has been finalized to provide a graduated build-up each month until one shift capacity

volume is reached in October 1966, at a monthly level of \$420,000. This represents an increase of \$270,000 over the established monthly capacity production of \$150,000 which was the peak obtained by the old factory.

Stancor is further projecting an increase in annual sales volume to \$800,000 by our Peppler-Selig upholstery division in Elora. This will be possible following the recently completed modernization of the production facilities and the additional working space which was leased from the Town of Elora.

During 1966, Stancor Limited expects to continue its program of planned growth and development as aforementioned. Action has been taken to streamline and strengthen management functions. Negotiations are continuing in our acquisition program. Your management looks to the future with optimism and confidence that the fine start made in the first year will continue in 1966.

FRAMED PLAQUE—The handsome award, presented at the Furniture Mart's Industry Awards Banquet at the Royal York Hotel.



J. W. Stack
President

Toronto, Ontario
April 7, 1966



STANCOR LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

and Subsidiary Companies

Consolidated Statement of Profit and Loss

For the nine months ended December 31, 1965 (note 1)

Net sales		\$1,752,789
Cost of sales		<u>1,437,148</u>
Gross profit		\$ 315,641
Expenses:		
Marketing	\$ 121,470	
Administrative	<u>150,586</u>	<u>272,056</u>
Operating profit		\$ 43,585
Other expense (income):		
Interest (note 7)	\$ 35,436	
Gain on disposal of fixed assets	<u>(10,161)</u>	<u>25,275</u>
Net income for the period (note 6)		<u><u>\$ 18,310</u></u>

Consolidated Statement of Earned Surplus

Net income for the period—as above	\$ 18,310
Balance of consolidated earned surplus, December 31, 1965	<u><u>\$ 18,310</u></u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

ASSETS Current:

Cash		\$ 63,217
Accounts receivable		362,454
Inventories, at the lower of cost or market—		
Raw materials	\$ 344,317	
Work in process	149,686	
Finished goods	248,767	742,770
Prepaid expenses and other current assets		29,496
Total current assets		<u>\$1,197,937</u>

Fixed:

Land—cost	\$ 18,123	
Buildings—cost		456,275
Machinery and equipment—		
Original cost to subsidiary companies		882,654
Excess of purchase price of shares of subsidiary companies over book values of net assets acquired, allocated to machinery and equipment (note 1)		207,884
		<u>\$1,564,936</u>
Less accumulated depreciation		829,432
		<u>\$ 735,504</u>
Cost of new factory under construction (note 10)—		
Land, buildings, machinery and equipment		1,146,474
Cash held for further capital expenditures		545,292
Total fixed assets		<u>\$2,427,270</u>

Other:

Debenture discount and expense, less amortization ..	\$ 82,855	
Share issue expenses		24,287
Organization and preliminary expenses, less amortization		15,676
		<u>\$ 122,818</u>
		<u><u>\$3,748,025</u></u>



STANCOR LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

and Subsidiary Companies

December 31, 1965

LIABILITIES Current:

Bank indebtedness of subsidiary companies (note 2)	\$ 616,996
Trade accounts payable and accrued charges.....	154,468
Income and other taxes payable.....	21,597
Note payable—6% due May 21, 1966.....	25,000
Total current liabilities.....	\$ 818,061
Amounts due for construction of new factory.....	417,854
Deferred note payable—6% due May 21, 1967.....	25,000
6½% convertible collateral trust debentures due November 15, 1977 (subject to sinking fund) (note 3).....	1,250,000
Total liabilities.....	\$2,510,915

Shareholders' equity:

Capital stock—

Authorized (notes 5 and 10):

750,000 common shares without par value

Issued (note 4):

271,000 shares..... \$1,213,800

Contributed surplus (note 4)..... 5,000

Earned surplus (note 10)..... 18,310 1,237,110

On behalf of the Board: D. R. Annett, Director

J. W. Stack, Jr., Director

\$3,748,025

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 1965

1. Basis of consolidation

Stancor Limited was incorporated on March 8, 1965 and on May 21, 1965 acquired either by direct purchase or by purchase of shares of the holding company, all the outstanding shares of The Neustadt Manufacturing Company Limited (holding company), Peppler Bros. Company Limited, Peppler-Selig Sales Limited and John C. Mundell & Company Limited for \$1,000,000. The excess of the cost of the shares over the book values of the underlying net assets acquired, \$207,884, has been allocated to machinery and equipment, and is being amortized over a ten-year period. An appraisal of the machinery and equipment of Peppler Bros. Company Limited by Warnock Hersey Appraisal Company Ltd. in November 1964 indicated that depreciated replacement values exceeded net book values by more than this amount.

For accounting purposes, the acquisition of the subsidiary companies is deemed to have taken place as of March 31, 1965 (the closest interim date to which accounts of the companies had been prepared), and accordingly the statement of consolidated income includes operating results for the nine month period ended December 31, 1965.

2. Bank indebtedness

Bank indebtedness of the subsidiary companies is secured by a pledge of accounts receivable and inventories of a book value of \$1,101,940. In addition, a \$1,000,000 debenture has been issued to the bank as collateral security, consisting of a floating charge on all the assets of the subsidiary companies.

3. 6½% convertible collateral trust debentures due November 15, 1977

The debentures are convertible at the holder's option into common shares without par value on the basis of 12½ common shares for each \$100 principal amount of debentures during the period to November 14, 1972, and 10 common shares for each \$100 principal amount of debentures during the period November 15, 1972 to November 14, 1977.

4. Common shares and share purchase warrants issued

In the period ended December 31, 1965, common shares without par value and share purchase warrants have been issued as follows:

	Number of common shares	Number of share pur- chase warrants	Consideration allocated to Capital Stock	Contributed Surplus
For cash....	235,000	100,000	\$1,014,000	\$5,000
See note* ..	36,000		\$ 199,800	
	<u>271,000</u>	<u>100,000</u>	<u>\$1,213,800</u>	<u>\$5,000</u>

*As part of the consideration for the purchase of the shares of the subsidiary companies referred to in note 1.

5. Reservation of common shares

- (a) 185,000 shares are now or will be reserved for pos-

sible issue upon the exercise of the 100,000 share purchase warrants presently outstanding and the 85,000 warrants to be issued as part of the financing referred to in note 10 below. Such warrants entitle the holders thereof to purchase common shares at a price of \$8 per share until June 15, 1975, subject to adjustment under certain conditions.

- (b) 20,000 shares are reserved for possible issue upon the exercise of stock options granted to officers or employees of the company and its subsidiaries. As of December 31, 1965 options to purchase 19,000 shares at a price of \$8 per share exercisable for periods up to six years had been granted to certain officers and employees, none of which had been exercised. Options to purchase an additional 1,000 shares on the same terms were granted in February 1966.
- (c) 156,250 shares are reserved for possible issue on conversion of the debentures referred to in note 3 above.

6. Income taxes

- (a) The income which would ordinarily be subject to tax for the nine months ended December 31, 1965 is higher than the income shown by approximately \$29,000 representing certain expenses which are not deductible for income tax purposes. However no provision is required in respect of the income taxes of \$20,600 otherwise payable for this period by reason of (i) the tax reductions of \$4,300 referred to in 6(b) below, and (ii) the prior years' losses of one of the subsidiary companies which have been used to eliminate \$16,300 of such taxes. Losses still available to carry forward against future profits would, at current tax rates, result in tax credits of approximately \$26,000.
- (b) For income tax purposes the subsidiary companies claim capital cost allowances on asset costs in excess of depreciation provided in the accounts. In the nine months ended December 31, 1965 such additional claims resulted in tax reductions of \$4,300. As at December 31, 1965 the cumulative total of such tax reductions for 1965 and prior years amounted to \$36,064.

7. Interest

In the nine months ended December 31, 1965, interest expense consisted of:

Interest on 6½% convertible debentures (including amortization of discount and expense)....	\$11,035
Interest on bank and other borrowings (net).....	31,344
	<u>\$42,379</u>

Less interest capitalized as part of the cost of construction of the new factory	6,943
	<u>\$35,436</u>



STANCOR LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

and Subsidiary Companies

8. Depreciation

Depreciation expense for the nine months ended December 31, 1965 amounted to \$60,436 including an amount of \$15,591 as amortization of the increased values assigned to machinery and equipment as explained in note 1.

9. Pension plan

Two of the subsidiary companies are participants in a non-contributory joint industry-union pension plan covering hourly-paid employees which went into effect on January 1, 1962. To provide for the pensions payable on retirement, the companies have been contributing amounts (based on actuarial rates determined by an independent actuary) which include the estimated current service costs plus the instalment funding of past service costs over the 10-year period 1962 to 1971 inclusive. In the nine months ended December 31, 1965 the companies contributed \$34,706 to the plan.

10. Events subsequent to December 31, 1965

- (a) The company obtained supplementary letters patent
 - (i) designating the 750,000 existing shares as common shares and increasing the company's authorized capital by creating 225,000 first preference shares of \$10 par value each, issuable in series, and (ii) designating as the first series 150,000 6% cumulative redeemable convertible preference shares 1966 series, redeemable at \$10.60 each from and after March 1, 1969.
- (b) Pursuant to an underwriting agreement dated January 31, 1966, as amended by letter agreement dated February 7, 1966, the company agreed to sell—
 - (i) 150,000 6% cumulative redeemable convertible first preference shares 1966 series, to which will

be attached warrants to purchase 45,000 common shares, for a total of \$1,500,000 cash;

- (ii) Warrants to purchase 40,000 common shares, for a total of \$2,000 cash.

The preference shares are convertible at the holder's option into common shares on the basis of 1¼ common shares for each preference share during the period to March 1, 1973, and 1 common share for each preference share during the period March 2, 1973 to March 1, 1978.

During the period in which any of the preference shares are outstanding, dividends on the common shares will be payable only to the extent that, after such dividend payments, consolidated current assets (as defined) are at least 200% of consolidated current liabilities (as defined), and total equity (as defined) is at least \$3,200,000.

Proceeds of the issue are to be used to finance the remaining capital costs of the new factory, including the purchase of machinery and equipment, estimated at \$823,234, to pay existing liabilities for construction of the new factory in Hanover, Ontario, \$417,854, for an aggregate of \$1,241,088, (financed since December 31, 1965 to the extent of \$500,000 by interim bank loans); to pay an underwriting commission of \$90,000 and other issue expenses of \$20,000; and to augment the company's working capital with the balance, estimated at \$150,912.

The net proceeds of issue, exclusive of the \$500,000 required to pay interim bank loans, are to be deposited with Montreal Trust Company under an agreement to be entered into between the company and Montreal Trust Company.

AUDITORS' REPORT TO THE SHAREHOLDERS OF STANCOR LIMITED:

We have examined the consolidated balance sheet of Stancor Limited and subsidiary companies as at December 31, 1965, and the consolidated statements of profit and loss and earned surplus for the nine months ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of profit and loss and earned surplus present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the nine months ended on that date, in accordance with generally accepted accounting principles.

Toronto, Canada,
March 4, 1966.

Clarkson, Gordon & Co.
Chartered Accountants

Financial Review

The results of the Company for the nine months ended December 31, 1965, are included in the consolidated statement of profit and loss and earned surplus.

Operating Comparisons

To assess results realistically on an operating basis, a full year must be examined. Accordingly, a statement of profit and loss which incorporates (1) the results of the Peppler Group of Companies for the portion of 1965 prior to their acquisition, and, (2) comparative figures for the twelve

months ended December 31, 1964, is included in this section of the report. From this comparison it will be seen that in 1965, the Company has improved on shipments and gross profit margins over 1964 while, at the same time, making the significant changes in the corporate structure, as well as in productive facilities represented by the new premises in Hanover, Ontario, described elsewhere in this report. It is interesting to note that the 1965 sales volume is the highest ever achieved by the Peppler Bros. and Peppler-Selig Divisions.

COMPARATIVE STATEMENT OF PROFIT AND LOSS

	Stancor nine months to Dec. 31, 1965	Peppler three months to Mar. 31, 1965	1965 Total Year	1964 Total Year
Sales.....	\$1,752,789	\$ 587,309	\$2,340,098	\$2,177,636
Cost of goods sold.....	1,437,148	441,825	1,878,973	1,762,758
Gross profit.....	\$ 315,641	\$ 145,484	\$ 461,125	\$ 414,878
Marketing and administrative expenses....	\$ 272,056	\$ 88,504	\$ 360,560	\$ 280,640
Interest.....	35,436	7,474	42,910	23,278
Miscellaneous income.....	(10,161)	(750)	(10,911)	(2,520)
	\$ 297,331	\$ 95,228	\$ 392,559	\$ 301,398
Profit before income taxes.....	\$ 18,310	\$ 50,256	\$ 68,566	\$ 113,480
Income taxes.....	—	13,000	13,000	32,266
Net profit.....	\$ 18,310	\$ 37,256	\$ 55,566	\$ 81,214
Depreciation included above.....	\$ 60,436	\$ 12,385	\$ 72,821	\$ 53,754

Profit

Net profit for the full 1965 year of \$55,000 reflects the operating results for the year of the two divisions—Peppler Bros. Company Limited, Hanover and Peppler-Selig Limited, Elora, and the head office and administrative expenses of Stancor Limited.

At the divisional level profits for 1965 are in excess of 1964. Stancor Limited's head office costs provide the administrative base for the greatly expanded operations planned for 1966 and future years. The profit for 1965, after full allocation of these administrative costs and other special charges against the revenue from the traditional sales pattern of the Peppler Companies, emphasizes the potential for significant profit improvements when the full capacity of the new and improved facilities is utilized and when further divisions are added.

Construction Program

The total cost of the new facilities in Hanover, Ontario, is planned at \$2,600,000. As of December 31, 1965, costs of

approximately \$1,200,000 had been incurred under this program. Current assessments indicate that final costs of the program will be approximately 5% below plan. Furniture shipments from the new facility began on March 9, 1966—just 209 days after the official ground breaking.

Financing

A consolidated statement of source and application of funds for the period ended December 31, 1965, is included in this report. This highlights the application of the proceeds of the two financing programs in the year—a common share issue to finance the acquisition of the Peppler Group of Companies, and an issue of Convertible Debentures to finance new facility construction.

To complete the program of financing the new facilities in Hanover, First Preference Shares with a par value of \$1,500,000 were issued in March 1966. This issue completes the financing of the new facilities and provides the company with a substantial equity base and modern production facilities which are not subject to mortgage or other specific charges.



STANCOR LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

and Subsidiary Companies

Consolidated Statement of Source and Application of Funds

For the nine months ended December 31, 1965

SOURCE

OF FUNDS: Operations—

Net income for the period.....	\$ 18,310
Add depreciation and amortization, which did not involve an outlay of funds.....	61,315
	<u>\$ 79,625</u>
Working capital of subsidiary companies at date of acqui- sition.....	325,726
Net proceeds of issue of 6½% convertible collateral trust debentures, due November 15, 1977.....	1,166,266
Net proceeds of issue of common shares and warrants to purchase common shares.....	994,713
	<u>\$2,566,330</u>

APPLICATION

OF FUNDS: Purchase of shares of subsidiary companies—

Total purchase price.....	\$1,000,000	
Less portion paid by issue of common shares (\$199,800) and issue of deferred note (\$25,000).....	224,800	\$ 775,200
Acquisition of fixed assets (net)—		
(a) New factory and equipment costs to December 31, 1965 (less portion shown as a non-current liability at that date).....	\$ 728,620	
(b) Other additions.....	120,107	
(c) Cash held for further capital expenditures.....	545,292	1,394,019
Payment of organization and preliminary expenses.....		17,235
		<u>\$2,186,454</u>
Consolidated working capital, December 31, 1965.....		<u>\$ 379,876</u>



STANCOR LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

and Subsidiary Companies

General Information

HEAD OFFICE:

151 Bloor Street West, Toronto 5, Ontario
Telephone 416/927-1586

DIVISIONS:

Peppler Bros. Company Limited,
359-10th Street, Hanover, Ontario
Telephone 519/364-1640

Peppler-Selig Limited, Elora, Ontario
Telephone 519/846-5321

PRODUCTS:

Peppler Division:
Case Goods (dining and bedroom suites)
novelties; tables, chairs

Peppler-Selig Division:
Upholstered furniture

PLANT AREA (square feet):

Peppler Bros. Division—	
Original plant.....	145,000
New construction.....	210,000
Peppler-Selig Division.....	25,700
	<u>380,700</u>

SALES:

Year	Peppler	Peppler-Selig
1965.....	\$1,628,000	\$712,000
1964.....	\$1,485,000	\$693,000

NUMBER OF EMPLOYEES:

Peppler (Original plant).....	170
Peppler-Selig.....	45

NUMBER OF SHAREHOLDERS:

Common Shares.....	300
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SHARES OUTSTANDING:

Common.....	271,000
Preference*.....	150,000

**Preference shares issued March 21, 1966.*

TRANSFER AGENTS AND REGISTRARS:

Common Shares: Guaranty Trust Company of Canada,
Toronto, Hanover and Montreal

Preference Shares: Montreal Trust Company,
Montreal and Toronto

TRUSTEE:

Convertible Collateral Trust Debentures:
The Royal Trust Company

